

Message Text

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DRAFTED BY EA/J:DFSMITH:EH
APPROVED BY THE SECRETARY
EB-MR. KATZ (DRAFT)
S /S-F.ORTIZ
EA - MR. HUMMEL

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FM SECSTATE WASHDC
TO AMEMBASSY TOKYO NIACT IMMEDIATE

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E.O. 11652: GDS

TAGS: ENRG, JA

SUBJECT: LETTER FROM SECRETARY TO FOREIGN MINISTER
ON OIL PRICE DECISION

1. THE EMBASSY IS REQUESTED TO FORWARD SOONEST FOLLOWING
LETTER FROM THE SECRETARY TO FOREIGN MINISTER KOSAKA. THIS
LETTER IS IN SUBSTANCE SAME AS LETTERS SENT TO UK, FRENCH,
AND FRG FOREIGN MINISTERS. LETTER IS CONTAINED IN PARAS
2-10 BELOW.

2. DEAR MR. MINISTER: AS YOU KNOW, THE ORGANIZATION OF
PETROLEUM EXPORTING COUNTRIES WILL MEET IN DECEMBER TO
DECIDE ON THE PRICE THEY WILL CHARGE FOR THEIR OIL IN 1977.
THIS DECISION WILL HAVE MAJOR IMPLICATIONS FOR THE WORLD
ECONOMY AND THE ECONOMIC WELL-BEING OF INDIVIDUAL OIL
IMPORTING COUNTRIES.

3. IN THE CASE OF THE UNITED STATES, WE ESTIMATE THAT FOR
EACH FIVE PERCENT INCREASE IN OIL PRICES, OUR PAYMENTS FOR
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IMPORTED OIL WOULD INCREASE BY 1.7 BILLION DOLS. A NEW

PRICE INCREASE WOULD ALSO SLOW THE RATE OF GROWTH OF US GNP, RAISE UNEMPLOYMENT, AND ACCELERATE INFLATION.

4. A PRICE INCREASE COULD BE EVEN MORE SERIOUS FOR SOME INDUSTRIAL COUNTRIES WHO ARE ALREADY IN ECONOMIC DIFFICULTY AND WHO ARE MORE DEPENDENT ON IMPORTED OIL. THE GENERAL IMPACT ON ECONOMIC CONFIDENCE IS INCALCULABLE BUT COULD BE PARTICULARLY SIGNIFICANT AT THIS DELICATE POINT IN A RELATIVELY WEAK GENERAL RECOVERY.

5. A PRICE INCREASE WOULD HAVE TRAGIC CONSEQUENCES FOR THE NON-OIL EXPORTING DEVELOPING COUNTRIES. EACH FIVE PERCENT PRICE INCREASE WOULD RAISE THEIR DIRECT COSTS FOR IMPORTED OIL BY MORE THAN 600 MILLION DOLLARS ABOVE THE 1976 LEVEL OF ALMOST 13 BILLION DOLLARS, COMPARED TO 3 BILLION DOLLARS IN 1973. THE INDIRECT COSTS RESULTING FROM HIGHER PRICES FOR THEIR NON-OIL IMPORTS AND THE SHRINKAGE OF THEIR EXPORT MARKETS IN INDUSTRIALIZED COUNTRIES WOULD RAISE THE TOTAL IMPACT ON THESE COUNTRIES TO OVER 1 BILLION DOLLARS.

6. THE IMPACT ON THE INTERNATIONAL FINANCIAL SYSTEM IS PARTICULARLY ALARMING. COUNTRIES FACING SERIOUS BALANCE OF PAYMENTS PROBLEMS WOULD FIND IT MORE DIFFICULT TO REGAIN EQUILIBRIUM. THE PRIVATE FINANCIAL SYSTEM, ALREADY HEAVILY COMMITTED AS A RESULT OF THE DEFICITS CAUSED BY THE 1973-74 OIL PRICE INCREASES, WOULD BE FURTHER STRAINED.

7. GIVEN THIS OUTLOOK, I BELIEVE IT IS INCUMBENT ON THE UNITED STATES AND OTHER MAJOR INDUSTRIALIZED COUNTRIES TO ENSURE THAT THE OPEC NATIONS ARE FULLY AWARE OF THE POSSIBLE CONSEQUENCES TO OTHERS AND TO THEMSELVES OF A DECISION TO RAISE AGAIN THE PRICE OF OIL. WE SHOULD NOT REGARD A PRICE INCREASE AS INEVITABLE. I WOULD LIKE TO SUGGEST, THEREFORE, THAT OUR GOVERNMENTS BEGIN CONSULTATIONS ON AN URGENT BASIS ON POSSIBLE STEPS WE MIGHT TAKE TO AVERT SUCH AN INCREASE.

8. IN PARTICULAR, WE WOULD LIKE TO CONSULT ON POSSIBLE
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COMMON ELEMENTS OF BILATERAL APPROACHES TO KEY OPEC COUNTRIES. WE CONSIDER SAUDI ARABIA AND IRAN TO BE PARTICULARLY IMPORTANT IN THE EVENTUAL OPEC DECISION. IN OUR OWN APPROACHES TO BOTH COUNTRIES, WE ARE STRESSING THE SERIOUS ECONOMIC IMPACT OF ANY PRICE INCREASE AT THIS TIME, GIVEN THE OBVIOUS FRAGILITY OF THE ECONOMIC RECOVERY AND THE PARTICULARLY SERIOUS ECONOMIC DIFFICULTIES OF CERTAIN MAJOR INDUSTRIALIZED COUNTRIES AND

MANY DEVELOPING COUNTRIES. WE WILL ALSO REFUTE STRONGLY

THE CLAIM THAT AN OIL PRICE INCREASE IS SOMEHOW ECONOMICALLY JUSTIFIED BY INCREASES IN THE COSTS OF OUR EXPORTS TO THE OIL PRODUCERS. IN FACT, SINCE SEPTEMBER 1975, WHEN THE OIL PRICE WAS RAISED BY TEN PERCENT, THE PRICES OF THE EXPORTS TO OPEC OF THE SEVEN MAJOR INDUSTRIALIZED COUNTRIES HAVE RISEN ONLY FOUR PERCENT.

9. IN ADDITION, I BELIEVE THAT WE SHOULD EXPLORE OTHER POSSIBLE COMMON ELEMENTS OF APPROACHES TO IRAN, SAUDI ARABIA, AND PERHAPS ADDITIONAL OPEC MEMBERS. IN THE CASE OF SAUDI ARABIA, FOR EXAMPLE, WE SHOULD EXAMINE JOINTLY: THE LEGITIMACY OF THE APPARENTLY GROWING SAUDI CONCERN OVER THEIR SURPLUS ASSETS; THE POSSIBLE RELATIONSHIP BETWEEN THIS ISSUE AND SAUDI DECISIONS ON PRODUCTION LEVELS AND WHAT, IF ANYTHING, WE MIGHT BE ABLE TO DO TO RESPOND TO SAUDI CONCERNS.

10. IF YOU AGREE, I SUGGEST THAT WE BEGIN PRIVATE CONSULTATIONS ON THESE AND RELATED MATTERS AS SOON AS POSSIBLE. AS SOON AS I RECEIVE YOUR RESPONSE, I WILL BE HAPPY TO DESIGNATE SENIOR US OFFICIALS TO MEET IN WASHINGTON WITH YOUR APPOINTED REPRESENTATIVES. I HAVE ALSO WRITTEN TO THE FOREIGN MINISTERS OF FRANCE, THE UNITED KINGDOM, AND THE FEDERAL REPUBLIC OF GERMANY, AND WE WILL BE CONSULTING WITH THOSE GOVERNMENTS SHORTLY ON THIS IMPORTANT SUBJECT. BEST REGARDS, HENRY A. KISSINGER. KISSINGER

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